CAMBRIDGE INTERNATIONAL EXAMINATIONS

GCE Advanced Subsidiary Level and GCE Advanced Level

MARK SCHEME for the October/November 2013 series

9708 ECONOMICS

9708/23 Paper 2 (Data Response and Essay – Core), maximum raw mark 40

This mark scheme is published as an aid to teachers and candidates, to indicate the requirements of the examination. It shows the basis on which Examiners were instructed to award marks. It does not indicate the details of the discussions that took place at an Examiners' meeting before marking began, which would have considered the acceptability of alternative answers.

Mark schemes should be read in conjunction with the question paper and the Principal Examiner Report for Teachers.

Cambridge will not enter into discussions about these mark schemes.

Cambridge is publishing the mark schemes for the October/November 2013 series for most IGCSE, GCE Advanced Level and Advanced Subsidiary Level components and some Ordinary Level components.

CAMBRIDGE
International Examinations

1 (a) (i) Give <u>two</u> examples of non-tariff barriers to trade. [2]

Quotas, embargoes, exchange controls, subsidies, quality standards, licensing, administrative procedures, VERs etc. **Any 2 examples.**

(ii) State <u>two</u> changes that would have been necessary within the EAC when it moved from being a common market to being a monetary union. [2]

Changes needed to create a monetary union from a common market include:
- a common currency
- a centrally determined common interest rate
- a central bank for the union
- a single exchange rate. **Any 2 examples.**

(b) Explain <u>two</u> possible reasons for the imposition of different CET rates by the EAC. [4]

Possible reasons include:
- Zero CET rates are imposed on products essential to production such as raw materials and capital goods. These are needed to help economic growth. (Up to 3 marks)

- Zero CET rates are imposed on 'meritorious' goods such as medicines that suggest goods that bring generally accepted 'merit', and have humanitarian benefits. (Up to 3 marks)

- 25% rates are imposed on consumer goods to encourage their production in the EAC. (Up to 3 marks)

- High CET rates, (e.g. 100% on cane sugar), might be imposed on 'sensitive' goods to protect local producers, workers and infant industries. (Up to 3 marks)

(c) With reference to Tables 1 and 2, analyse the impact of the creation of the EAC Customs Union on the trade position of Tanzania. [6]

- **For an analysis of the position with its partners:** this shows deterioration into deficit during the first 2 years. This then improves and produces the largest trade surplus during the period. (1) The improvement has been greater in trade with Kenya than with Uganda (1). A beneficial effect (1) (Up to 4 marks)

  If only look at imports and exports then a maximum of 1 mark. If no references to trade balance 1 mark maximum. If discuss total size of trade (imports and exports added together) then up to 4 marks.

- **For an analysis of the position with the rest of the world:** this has not been improved by the creation of the customs union as the trade deficit continues to grow throughout the period. It might be argued that the increase in deficit was slowing at the end of the period (1). Overall the trade position has worsened (1). Not a beneficial effect (1). (Up to 4 marks)

© Cambridge International Examinations 2013

(d) Discuss the case for expanding the EAC after 2012 to include other neighbouring countries. [6]

The case for includes:
The inclusion of more members might extend the benefits of free trade, specialisation and comparative advantage. Economies of scale might be gained and trade creation might take place. Choice may be extended and costs may fall. Greater economic influence might result. This may depend upon the economic structure and performance of the new members.
(Up to 4 marks)

The case against includes:
Integration may be a difficult process which generates costs as well as benefits. Trade diversion may result. Some members might be casualties of the changes with reduced production and employment as the economic structure within the EAC changes. A larger more diverse community may be more difficult to regulate and individual states' self-interest might predominate. (Up to 4 marks)

© Cambridge International Examinations 2013

Section B

2 (a) Explain the role of the enterprise factor of production in a free market economy, and compare this with the role of the other factors in the production process. [8]

The enterprise factor takes the risk of production and in addition organises the other factors.

- For knowledge and understanding of the role of the factor enterprise including both aspects of the function. (Up to 4 marks)

- For application: showing the role of the other factors and how they compare with that of enterprise. For each factor of production (3 × 1 mark) and for a comparative comment (1 mark). (Up to 4 marks)

(b) Explain the key differences between centrally planned and mixed economies, and discuss whether enterprise is a factor of production that is needed in a centrally planned economy. [12]

In a centrally planned economy resources are allocated by the government, often through national, regional and local agencies. In a mixed economy resources are allocated through some degree of government planning, but also through the market. In a mixed economy the factor enterprise takes risk and organises the other factors where the market operates. The reward to enterprise for undertaking these functions is profit. In a centrally planned economy the nature of 'risk' is different and borne by the state. The organisation function of enterprise is still required and undertaken by salaried managers.

- For an analysis of the key differences between centrally planned and mixed economies. (Up to 8 marks)

- For evaluative comment on the need for the factor enterprise in a centrally planned economy. (Up to 4 marks)

© Cambridge International Examinations 2013

3 (a) Explain the relationship between the quantity of money in an economy and the value of money in that economy. [8]

The quantity theory of money suggests that an increase in the quantity of money in an economy will cause the general price level to rise and the value of money to fall. Candidates should be aware of this relationship and be able to explain the links. We should allow full marks for those who question the relationship as long as it is based upon accurate application of theory.

- For knowledge and understanding of the 'quantity of money' in terms of liquidity in an economy and the 'value of money.' (Up to 4 marks)

- For application: showing the indirect relationship through the quantity theory of money. (Up to 4 marks)

(b) Explain the effects on the functions of money of a significant rise in the general price level and discuss which you consider to be the most damaging for a modern economy. [12]

The functions of money should be familiar to students who should also be able to explain the way in which inflation affects each of them. Most candidates will suggest that the medium of exchange function is most serious, but allow any function if the justification is well argued.

- For an analysis of the impact of a significant rise in the general price level and its effects on the functions of money. Brief explanations only are required of the medium of exchange, store of value, unit of account and standard for deferred payment functions. (Up to 8 marks)
  All 4 functions are needed for 8 marks. Up to 3 marks for any function well analysed.

- For evaluative comment on the most damaging element. Candidates might choose any of the functions as being most seriously affected by inflation. It is important that candidates justify their choice. For example, some might argue that the impact upon money's function as a medium of exchange could be justified because it will undermine trading activity. Others that the impact upon the function of store of value is most damaging because it prevents savings and capital accumulation. (Up to 4 marks)

© Cambridge International Examinations 2013

4 In October 2011, the Chinese government said that they would not allow a further rise in the international value of China's currency, the yuan, because the Chinese economy would be damaged.

(a) Explain how exchange rates are determined in a free market and how some governments intervene to manage their exchange rate. [8]

- For knowledge and understanding of how exchange rates are determined in a free market. (Up to 4 marks)

- For application: showing how governments intervene to manage the exchange rate. (Up to 4 marks)

(b) Explain the costs and benefits of a rising exchange rate and discuss whether on balance an economy 'would be damaged' by a rising exchange rate. [12]

A rising exchange rate will mean that the price of exports will increase and the price of imports will fall. Candidates should explain this together with the impact of this on an economy. Whether an economy is overburdened by a rising exchange rate depends upon a range of factors including whether the economy has a surplus balance of payments, a high inflation rate and so on. Candidates should be able to consider a number of factors to reach a decision on whether, on balance, the economy would be 'damaged'.

- For analysis of the costs and benefits of a rising exchange rate on the price of exports and the price of imports. (Up to 8 marks)
  Up to 6 marks for only the costs or benefits.

- For evaluative comment on whether an economy would on balance be 'damaged'. (Up to 4 marks)

© Cambridge International Examinations 2013